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OFFICE OF INTERNAL OVERSIGHT SERVICES  
AUDIT AND MANAGEMENT CONSULTING DIVISION

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Assignment No. AF2001/31/3

To: Mr. John Chien,  
Chief Administrative Officer, UNOHCI

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Subject: Cash operations in Northern Iraq

The recommendations set out below are submitted for your consideration. Please comment on them and, where appropriate, specify the corrective action taken or provide a planned implementation schedule. When commenting please refer to the Assignment No. listed above and to the recommendation number in parenthesis in order to facilitate monitoring of its status (timely response, acceptance, implementation). Please reply by 31 March 2001.

***Audit Observations and Recommendations***

1. Rule 111.6 of the Financial Regulations and Rules of the United Nations provides that the exchange rate between the United States Dollar and other currencies are to be established by the Controller for recording of all UN transactions. It specifies that the actual amounts obtained on exchange should be taken into account and any difference between the amount obtained and that which would have been obtained at the official exchange rate should be accounted for as a loss or gain on exchange, to be finally (on closure of accounts for the financial period) debited to budget accounts in case of loss or credited to miscellaneous income. The operational rate of exchange is decided periodically (monthly) by the UN Headquarters.

2. Rule 108.8 of the Rules, *ibid.* states that the officer responsible for the operation of UN bank Accounts or holding UN cash are not authorised to exchange one currency for another, except to the minimum extent essential for transaction of official business. Rule 108.9 further stipulates payments by the UN only under the authority of 'Approving Officers' and on the basis of duly certified

*2/16**7/16*

supporting vouchers.

3. Rule 110.22 require that written contracts/purchase orders be established as appropriate for every purchase of goods and services. Under Rule 110.18, contracts for purchase for goods/services etc shall be let after competitive bidding or calling for proposals. A comparative analysis of the bids/proposals has to be kept on record.

4. Under Rule 108.1, only the Controller or Officials authorised by the Controller can authorise opening of a bank account, to keep and manage funds of the UN.

5. We reviewed the cash operations of UNOHCI, including cash security, in the North to ascertain if transactions were being carried out under the relevant Rules, Regulation and best practices. We also reviewed the exchange operations, i.e. exchange of US \$ into local currency 'Old Iraqi Dinar (OID)'. For this purpose, a sample of all exchange transactions made by UNOHCI in the North from January 1999 to November 2000 were analysed. The following irregularities/weaknesses were noticed.

#### Arrangements for hard cash in North

6. UNOHCI has a contract with a local Company to provide hard currency (US \$) in the North. The contract was signed in August 2000. This was in keeping with our recommendation (Recommendation number AF00/49/1/004) made though our Audit Report dated 12 May 2000 to UNOHCI.

7. These cash operations being in the nature of 'banking operations' for which UNOHCI is also paying a fee, require approval from the Controller. Management could not provide us with a clear approval of this arrangement from the Controller.

We recommend that UNOHCI should obtain formal approval for this arrangement (Contract) from the Controller (AF01/31/3/101).

**Holding of cash in excess of authorisation**

8. The cash imprest ceiling authorised by the Controller for UNOHCI, North Iraq cashier is \$100,000. In addition \$250,000 is allowed as imprest cash for UNGCI. Both these are held by UNOHCI, Cashier and establishes the upper limit of cash that can be kept by the UNOHCI cashier at \$350,000.

9. It was ascertained that in addition to the above amounts around \$60,000 per month is also handled by the UNOHCI cashier, who receives these amount from various Agencies per month to be in turn paid to the local Guards through a UNGCI pay-master. These payments are for the local Guards used by the Agencies for security.

10. It was found that there were no specific records kept by the Cashier's office for these transactions. In addition, this can also violate the limit of cash imprest allowed by the Controller to be held by UNOHCI, North.

We recommend that UNOHCI:

- (i) Obtain an authorisation from the Controller to handle this additional cash and responsibility (AF01/31/3/102); and
- (ii) Review the arrangement of receiving cash from UN agencies for disbursement to local Guards used by them and consider financing it from the UNOHCI budget. This would avoid unnecessary cost sharing between Agencies, all funded through SCR 986 funds and would also reduce the risk in transferring cash from them to UNOHCI as well as would not violate the imprest limits authorised. (AF01/31/3/103).

9/16

**Accounting and Payment Procedures, unnecessary cash book**

11. The cash imprest limit for UNOHCI, North prior to 6 October 2000 was US \$ 40,000. This was subsequently raised to US \$ 100,000 for UNOHCI, North.

12. Prior to this increase, this US \$ 40,000 in North was being used for petty payments (F-10 of local staff, local contractor payments etc.) originating in North. The amount of US\$ 40,000 was treated as an advance to the Cashier in North from Baghdad and was subsequently liquidated in Baghdad on receipt of DVs sent from North Finance office. The payments for MSA to Internationals and other bigger payments were generated/authorised in Baghdad and the relevant documents along with hard cash was sent to North for making the payments. After the physical payments, the relevant DVs etc. were sent back to Baghdad for final accounting.

13. After the increase in the cash imprest level to US \$ 100,000, the cashier in North based on verbal instructions, maintains three cashbooks instead of required two, one for UNOHCI cash and another for UNGCI cash. The third cashbook is for US \$ 40,000, which is treated as an advance from US \$ 100,000. This is again meant for petty cash payments. The MSA etc. still get generated in Baghdad and paid in North. Based on the cash balances as in the cashbooks in Baghdad, Baghdad Office authorises UNOHCI North to get the required cash from the Contractor.

14. After the payments are made here, the original DVs are sent back to Baghdad for final liquidation/accounting and working out the cash balances with UNOHCI. The DVs are generally sent twice in a month from the North to Baghdad.

15. We find that there is no legal, technical or administrative basis for keeping this third cashbook of US \$ 40,000 after the limit for cash imprest having been raised to US \$ 100,000.

16. Further the maintenance of this third cash book and reporting of cash balances also accordingly in three parts coupled with the fact that original DVs are sent twice a month, it is difficult and confusing to work out the real cash balance with UNOHCI in Iraq as a whole. The time lag in sending the DVs would give rise to an incorrect cash balance as per books in Baghdad. (For example if the cash balance as per books in Baghdad office for North is 'X', the actual cash balance with UNOHCI, North would be a different figure 'Y', less than 'X', the difference being due to

10/16

payments made in North, the DVs for which have not been sent to Baghdad Office)

We recommend that UNOHCI:

- (i) Maintain only two cash books in North, one for UNOHCI (US \$ 100,000) and one for UNGCI, and do away with this third cash book (US \$ 40,000) to avoid possible confusions and to have a clearer picture of the real cash balances (AF01/31/3/104).
- (ii) Consider putting Finance section in North 'On-line' with Baghdad Office with the provision of 'Sun Accounts System, Progen, Reality etc. This would enable to know the cash balances correctly at any given moment of time, as the payments could be recorded in the accounts immediately on the payments being actually made. In addition, this would improve the efficiency of operations in North, which are comparable to the financial operations in Baghdad Office. This should be done in conjunction with the improvement in staff strength in Finance section in North (AF01/31/3/105); and
- (iii) Keep the original DVs in the North itself, as there is a risk of losing it enroute to Baghdad in the event of accidents, fire etc. happening to the vehicle carrying these documents. The Baghdad office could be sent copies/certified copies of these DVs (AF01/31/3/106).

**Exchange of US \$ into Old Iraqi Dinar (OID)**

17. During the period January 1999 to November 2000, a total of \$119,950 was exchanged for OID 2,235,445.50 at an average rate of OID 18.64 to one Dollar. The exchange rate obtained by UNOHCI varied between OID 17.64 to 18.64 during the period. During the period, dollars were

11/16

exchanged for OIDs on 76 occasions, at an average rate of more than 3 exchanges per month with maximum of up to seven times per month. The amount exchanged on each occasion varied from \$150 to 4,000 at an average of \$1,580 per exchange.

18. Our analysis of procedures adopted for exchange of US \$ into OID has revealed the following weaknesses and discrepancies:

- There has been no forecasting of OID requirements by UNOHCI indicated by varying amounts, varying frequency of exchanges in a month and at times multiple exchanges within a day itself.
- The exchange rate procedures adopted were ad-hoc and not based on any scientific or logical analysis as no comparable rates/quotes from financial agencies/agents was ever taken. In the absence of which, we are unsure if the Organisation is obtaining best 'Value for money'.
- The US \$ has been exchanged with different people including local cigarette shops and Liquor shops, and not necessarily with local agencies providing exchange services.
- There has been no market surveys undertaken by UNOHCI Management to ascertain Agencies/Agents that could have provided these exchange services.
- There have been occasions when the US \$ was exchanged into OIDs with existing staff-members. The basis of rates and as to how UNOHCI satisfied itself that these were best rates, was not ascertainable.
- Even where currency exchanges were made by an 'exchange agency', the payments were made to the staff members and not directly to the Agency concerned.
- On occasions, these transactions do not have the signature of the certifying Officer.
- On some occasions, currency exchanges were made without preparing a 'Disbursement voucher (DV)'.
- On one occasion, the cashier changed \$2,500 using his personal funds. This DV does not have the signature of 'Certifying officer'.
- Currency exchanges were done with 10 Agencies in addition to 34 exchanges, which do not even have a name depicting, with whom it was exchanged. These were shown as exchanged with

12/12

Agency 'Nil'. The total amount thus exchanged is \$58,800.

- On occasions, UNOHCI exchanged US \$ at different rates at the same time of day through a single invoice. No explanation was provided as to how this could happen.
- On occasions, UNOHCI did not obtain the full amount of OJD exchanged, as a fee was paid to the Dealers, the basis of which is not clear.
- Supporting documents (invoice/DV) for an exchange of US \$ 1500 into 28,875 OJD in January/February 1999, were not available.

19. Bearing in mind the adhoc and non-transparent arrangements adopted by UNOHCI for exchange of US \$ into local currency, we recommend the following:

UNOHCI should:

- (i) Perform a market survey, identify potential exchange agents, and maintain a panel of these (AF01/31/3/107);
- (ii) Review and forecast the monthly local currency requirements, which should be kept at minimum (AF01/31/3/108);
- (iii) Restrict monthly currency exchanges preferably to once a month only in order to avoid bearing loss/gains due to market exchange rates fluctuations (AF01/31/3/109);
- (iv) Obtain quotes from at least three identified dealers in the panel before each exchange is authorised. While these could be obtained telephonically, a record with adequate authorisation (Deputy CAO) should be kept. This would ensure that the Organisation obtains the best value for money (AF01/31/3/110);
- (v) Stop direct involvement of any UN staff in currency exchanges forthwith (AF01/31/3/111).
- (vi) Review the procedures in the North, so that transactions are

authorised only after due certification and ensure that all necessary financial records like DV etc. are maintained (AF01/31/3/112);

(vii) Consider strengthening the Finance section in the North which is presently staffed by one person who is also doing the cashier's job (AF01/31/3/113); and

(viii) In its role as the co-ordinating Agency for all the UN Agencies in Iraq, ascertain the 'exchange operations' procedures of all Agencies in the North and if necessary ensure that they establish sound 'exchange practices' (AF01/31/3/114).

#### **Certification of Exchange rate by UNOHCI**

20. It was observed that UNOHCI is also discharging the function of certifying exchange rate of US \$ into local currency as a service to other UN Agencies operating in the three Northern Governorates, the basis and the authority for which was not ascertainable.

We recommend that UNOHCI, being mandated to be the co-ordinating Agency for UN Operations in Iraq, should immediately disassociate itself from certifications of exchange rates for other UN agencies (AF01/31/3/115).

#### **Policy issues**

21. It was found that the Official exchange rates as approved and issued by UNHQ did not have any rate for conversion of US \$ into OID.

We recommend that UNOHCI, in cooperation with UNHQ, review the dilemma created due to the non-existence of adequate banking facilities in the North and consider options in terms of (i) establishing a suitable exchange rate if required, and (ii) review the alternative

14/16



option of UN Agencies to contract in a mutually acceptable other currency (AF01/31/3/116).

### Cash Security

22. In keeping with the normal practices for safe custody of cash, a review of the security arrangements for cash revealed some weaknesses.

We recommend that UNOHCI should:

- (i) Install a burglar alarm in the cashiers office linked to UNGCI security operations along with a hidden panic alarm for use in case of emergencies/robberies (AF01/31/3/117);
- (ii) Provide urgently a currency-counting machine with capability to detect fake currency. This assumes importance as the cashier receives all US \$ in cash from a contractor and not a bank, and from Agencies and in the present circumstances has no option but to accept all money, without checking for fake currencies (AF01/31/3/118);
- (iii) Provide a fax and photocopy machine for the cashier's Office (AF01/31/3/119);
- (iv) Provide an additional secured telephone line to the cashier's office (AF01/31/3/120);
- (v) Install a closed circuit camera in the Cashier's office with its monitor kept in a different Office (UNGCI security operations room or Deputy CAO) (AF01/31/3/121);
- (vi) Maintain a register to log people entering the cashier's office (AF01/31/3/122);
- (vii) Install a safe with double lock along with combination lock and procedures be put in place to keep the distinct keys with

15/16

the cashier and the other with a responsible officer in Administration, so that two persons must open the safe. While the cashier keeps one key the other is in Administration safe. In addition, the a combination lock setting should only be known to the cashier and one other person in Administration (AF01/31/3/123);

- (viii) Improve the payment window in the cashiers office by installing an iron grill or other device to further restrict access (AF01/31/3/124);
  - (ix) In conjunction with UNGCI, strengthen the security in/around cashier's office on days like paydays when disbursements are large and on days when large amounts of cash is received from the contractor (AF01/31/3/125); and
  - (x) Remove the common computer facility installed outside the cashier's office to restrict unwarranted proximity of people to cashier's office (AF01/31/3/126).
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14/16